

1440/OLL

*file personnel
General*OLL 83-2938
7 December 1983

MEMORANDUM FOR THE RECORD

SUBJECT: GAO Study Concerning the Comparison of U.S.
Military and Civil Service Pay and Benefits

1. Attached for your analysis and information is a copy of the statement used by a senior GAO officer in testifying to the Subcommittee on Civil Service, Post Office, and General Services of the Senate Committee on Governmental Affairs, chaired by Senator Ted Stevens (R., AK). His testimony, as the subject indicates, addressed a Comparison of U.S. Military and Civil Service Pay and Benefits.

2. I will make inquiries with Senator Stevens' staff as to the reception the GAO testimony received and will ask what, if anything else, Senator Stevens plans on this subject.

Liaison Division
Office of Legislative LiaisonAttachment:
As stated

Distribution:

Original - OLL Record w/att.
1 - OLL Chrono w/o att.
1 - A/D/OLL w/att.
1 - D/OLL w/att.
1 - DD/Pers w/att.
1 - DD/Pers/Spec Pgms w/att.
1 - DD/Pers/PA&E w/att.
1 - SSA/DDA w/att.
1 - AD/OF/PP w/att.
1 - C/LD/OLL w/att.
✓ 1 - C/LEG/OLL w/att.
1 - TBC Chrono w/att.
1 - TBC Subject w/att.

OLL:LD: (8 December 1983)STAT
110

STAT

STAT

U.S. GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C.

FOR RELEASE ON DELIVERY
Expected at 2:00 p.m.
Wednesday, November 30, 1983

STATEMENT OF

DR. KENNETH J. COFFEY
ASSOCIATE DIRECTOR (MANPOWER, RESERVE AFFAIRS AND LOGISTICS)

BEFORE THE

SUBCOMMITTEE ON CIVIL SERVICE, POST OFFICE AND GENERAL
SERVICES
SENATE COMMITTEE ON GOVERNMENTAL AFFAIRS

AND

SUBCOMMITTEE ON DEFENSE
SENATE COMMITTEE ON APPROPRIATIONS

ON

COMPARISON OF U.S. MILITARY AND CIVIL SERVICE
PAY AND BENEFITS

Mr. Chairman and Members of the Subcommittee:

We appreciate the opportunity to appear before you this afternoon to discuss how the pay and benefits received by U.S. military personnel compare with those of federal civil servants.

As you know, the military compensation system is considerably more complex than the general schedule civil service pay system. More importantly, however, the systems were designed to serve very different personnel management needs and to operate in a somewhat different environment. Let me just briefly outline for you some of these differences. First, whereas the civil service has generally operated in a "buyers market," frequently having many qualified applicants available for each job, the military generally has not been so fortunate.

In the recent past, the military has experienced great difficulty attracting and keeping qualified people for some highly technical and combat-related jobs. Second, whereas the civil service personnel system is an open system which means that an individual can enter at any level for which he or she is qualified, the military personnel system is a closed system. Most people enter the military at the lowest level--E-1 for enlisted personnel and O-1 for officers--and are promoted as they gain experience. This means that, except at the entry level, the military is not an active participant in the labor market. Rather, it is continually striving to compete with industry to keep its highly trained and skilled personnel. And finally, there are the many nonquantifiable conditions of military life, such as long family separations, long hours of work with no overtime pay--often under difficult or dangerous circumstances, frequent moves with no choice of job location, and the loss of some personal freedoms--in other words, the so-called "X-factor" of military life.

For these reasons, then, while we believe that useful insights can be gained by comparing military and civil service pay and benefits provided under both systems, we do not believe that such comparisons can support specific conclusions about the adequacy, inadequacy, or generosity of compensation levels under either system.

THE MILITARY PAY SYSTEM IN PERSPECTIVE

Whereas civil service employees are, for the most part, paid a straight-forward taxable salary or wage, along with a reasonably well defined benefit package, the military compensation system is a complex patchwork of 40-plus different pays, allowances and supplemental benefits. Some are taxable and some are not; some are based on need rather than work performed--which means that married military members are paid more than single members of the same rank and length of service; some compensation is provided "in-kind" rather than in cash; and some components of the compensation system, such as the imputed value of the so-called tax advantage, are nearly impossible for individual service members to accurately determine.

The military compensation system is generally divided into three basic components: (1) regular military compensation (RMC), (2) special and incentive pays, and (3) supplemental benefits and allowances. RMC is often thought of as the military equivalent to a civilian salary. Prior to 1980 it consisted of

- basic pay, received in taxable cash, and the only cash element of pay received each month by all members,
- the nontaxable value of a cash allowance for quarters (BAQ) paid when Government housing was not provided,
- the nontaxable values of a cash allowance for subsistence (BAS) when meals were not provided, and

--the so-called tax advantage. This is the amount of additional cash a service member would need to receive in order to have the same take home pay as if all regular military compensation were subject to federal income taxes.

In December 1980, two variable amounts of compensation--variable housing allowance and overseas station housing allowance--both of which are dependent on the location of the member's duty assignment--were added to the RMC definition.

In addition to RMC, many military members receive special and incentive pays designed to compensate for unusual risks or hardships, encourage retention of people in hard-to-fill occupations, and to attract persons with particular expertise. For example, in fiscal year 1983, DOD planned to spend about \$593 million in enlistment and reenlistment bonuses, \$286 million to encourage aviators to make a career of military aviation, \$229 million to compensate for sea duty, and \$230 million to entice doctors, dentists and other medical personnel to come into and remain in the service. A list of most of the special and incentive pays used by the services is in appendix I to this statement. In a recently completed study, we found that a large percentage of military career personnel are the recipient of one or more of these special and incentive pays which adds substantially to their RMC. Some examples of this are in appendix II.

Other supplemental benefits and allowances are also sometimes included in the definition of total military compensation. The more important of these are (1) disability and non-disability retirement benefits, (2) survivor benefits, (3) full social security coverage, (4) commissary and exchange shopping privileges, and (5) medical benefits.

DISPOSABLE INCOME COMPARISONS

Research has shown that for many military personnel and prospective recruits, pay is an important consideration in deciding for or against an initial enlistment or a military career. This being true, comparisons of pay are invariably made. However, in making comparisons, some special features of the military pay system which enhance take-home pay can be easily overlooked. For example, a comparison of military and federal civil service pay shows that for roughly equivalent gross income levels, military members have approximately 10 percent or more spendable income than do civil servants. The most prominent of the features which enhance spendable income are that, unlike civil servants:

- All active duty military members receive either rent-free government-furnished housing or cash allowances which are exempt from state and federal taxes.
- All active duty members receive either free meals or a cash allowance which is exempt from state and federal income taxes.

--Active duty members do not contribute to their military retirement program. This feature has no value to members who do not serve for 20 years, but has substantial value to those who make military service a career.

--Active duty members receive unlimited free medical care and, subject to some limitations, military dependents may receive free care in military facilities. When military facilities are not available, dependents receive medical care under the CHAMPUS program.

--Disproportionate numbers of military personnel--by reason of having established legal residence in particular states--do not pay state income tax on any of their military basic pay. (See app. V.)

To see how these features affect spendable income, we have just completed work for Senator Exon, and will shortly be issuing, a comparison of gross and net earnings for selected military members and federal civil servants. The proper linkage between military and civil service grade levels, or whether there should be any linkage at all, has been debated for years

without any agreement being reached.¹ Consequently, we did not attempt to make a military/civil service grade linkage, nor do the comparisons which we made imply any linkage in terms of job difficulty or responsibility. Rather, the comparisons simply show how the special features of the military pay system affect spendable income for individuals with roughly comparable levels of gross pay.

The complexities of pay and tax systems necessitated the use of many simplifying assumptions, and the results of any comparisons could vary considerably depending upon individual circumstances. Nonetheless, as the following table shows, the special features of the military pay system result in military members having significantly higher spendable income than civil servants who receive a roughly equivalent gross income. For example, a GS-14 step 4 civil servant with a gross salary of \$45,405 takes home about \$28,465, or 63 percent of gross pay,

¹This issue was discussed in the Department of Defense "Report of the First Quadrennial Review of Military Compensation," Vol. I, pp. 69 to 73, Nov. 1, 1967. This report recommended that the work level standard derived from applying the federal comparability process to the military grade structure and linking pay grades O-8 to GS-18, O-1 to GS-7 and E-3 to GS-3 and WB-5 be adopted as the quantitative standard for measuring the comparability of military salary rates to the Federal Classification Act salary rates. The report stated that through this process, military salaries would then be linked to comparable private enterprise salary rates. See app. III for the military/civil service work span comparisons suggested in the Quadrennial Review report.

whereas a military officer, grade O-4 with 16 years of service, would retain about \$32,663, or 71 percent of his or her \$46,223 regular military compensation.

Military and Federal Civilian Gross Income
and Spendable Income Comparison
Fiscal Years 1983 Pay Rates

Military a/				Civil Service			
<u>Grade/ROS</u>	<u>RMC</u>	<u>Spendable Income</u>	<u>Percentage</u>	<u>Grade/ Step</u>	<u>Gross Salary</u>	<u>Spendable Income</u>	<u>Percentage</u>
O-10/26	\$85,423	\$51,108	59.8				
O-8/26	84,392	51,161	60.6				
O-7/26	75,379	47,035	62.4	Ex. Level I	\$80,100	\$42,885	53.5
				Ex. Level II	69,800	38,945	55.8
				Ex. Level IV	67,200	37,951	56.5
				Ex. Level V	63,800	36,640	57.4
O-6/22	62,249	40,849	65.6	SES-3	61,515	35,652	57.9
				SES-1	56,945	33,676	59.1
O-5/20	54,181	36,701	67.7	GS-15/4	53,407	32,146	60.2
O-4/16	46,223	32,663	70.7	GS-14/4	45,405	28,465	62.7
E-9/26	39,370	29,144	74.0	GS-13/3	37,258	24,418	65.5
O-3/6	35,916	26,415	73.5	GS-12/4	32,311	21,714	67.2
E-8/20	31,747	24,759	78.0				
E-7/18	28,134	22,498	80.0	GS-11/4	26,959	18,601	69.0
O-2/2	26,041	20,483	78.7				
E-6/10	23,145	19,185	82.9	GS-9/4	22,281	15,436	69.3
O-1/1	20,514	15,629	76.2				
E-5/6	20,080	16,531	82.3	GS-7/1	16,559	11,462	69.2
E-4/3	15,533	12,428	80.0	GS-5/4	14,707	10,238	69.6
E-3/2	14,341	11,627	81.1	GS-5/1	13,369	9,462	70.8
E-1/1	11,718	9,769	83.4	GS-3/2	11,000	7,887	71.7

a/Does not include special and incentive pays received by many military personnel. (See app. IV for more detailed presentation of these comparisons.)

RETIREMENT COMPARISONS

Earlier this year the Chairman of the House Armed Services Subcommittee on Military Personnel and Compensation asked us to compare the U.S. military retirement system with, among others, the military retirement systems of several foreign governments and with several retirement systems in place for federal civilian employees. We were asked to focus especially on the retirement provisions which apply to certain select occupations, such as protective service and law enforcement personnel, air traffic controllers, and Foreign Service personnel.

Our study showed that when compared to other countries' systems, the U.S. military retirement system contains many provisions of distinct advantage. Provisions of the system which favor the U.S. military retiree include:

- ° Twenty years of service as the minimum necessary for an immediate or full annuity--several countries also have a minimum age requirement along with a years-of-service requirement.
- ° Cost-of-living adjustments of retirement benefits--most countries also have a cost-of-living adjustment but several have an age limitation.
- ° No required contributions--about half the countries surveyed required some member contribution.

- ° Addition of social security benefits to retirement benefit earned during military service--in several countries social security benefits are offset against military retirement benefits.
- ° Availability of retirement benefit for reserve service--no other country studied provides retirement benefits for reservists.

At the same time, however, advantages in the areas of providing survivor benefits, vesting retirement rights, and providing eligibility for lump-sum payments upon retirement can be found in some other countries' systems.

In terms of lifetime earnings, the total received by U.S. military retirees is considerably above what they would receive if they retired under the provisions of the retirement systems of these other countries.

Regarding other U.S. retirement systems, we noted that the military system is considerably more generous than the retirement system for general civil service employees. However, while lifetime earning disparities would exist if military personnel were subject to civil service retirement rules, there would be almost no reduction in lifetime earnings for military retirees if they were subject to the special rules that apply to certain categories civil servants. (See App. VII.)

For example, two special plans--one for protective services (law enforcement officers and fire fighters) personnel; the other for air traffic controllers--both permit retirement with immediate annuities at age 50 if 20 years of service have been completed. An air traffic controller may retire at any age if he or she has completed 25 years of service.

Because the lifetime retirement earnings for the three groups are so similar, the chief distinction between the military system and the plans for protective services personnel and air traffic controllers is the contribution rate. Protective services personnel must contribute 7.5 percent and air traffic controllers must contribute 7 percent of their salaries; as we have discussed earlier, military personnel are not required to make contributions.

We also looked at the U.S. Foreign Service Retirement System, and determined that it provides greater benefits than those received by the majority of civil servants, but not quite as great as those for military personnel, protective services personnel, and air traffic controllers. Foreign Service personnel are eligible for retirement if they are age 50 or above, after 20 years of service.

In sum, we found both similarities and differences between the U.S. military retirement system and those other federal special plans and systems we examined. In terms of similarities,

all the plans and systems we examined, except for the provisions guiding retirement for regular civil servants, have provisions for 20-year retirements at ages less than 60, and most would provide nearly equal lifetime retirement earnings. Further, under all the examined special plans and systems, there are provisions for COLAs linked to changes in the CPI.

In terms of differences, however, the military system offers more distinct advantages. Military members can retire at earlier ages than under any of the other special plans and systems; their basis for pension calculation (terminal pay rather than high-3) is better; they receive higher multipliers for service beyond 20 years; and, primarily, they are not required to make contributions to their retirement funds. While the provisions for protective services personnel and air traffic controllers are the most similar to the provisions for military personnel, the military retirement system in total is more advantageous.

CONCLUDING REMARKS

As we have discussed here today the military compensation system has many components and features which differ from those of civil servants and provide less-than-obvious enhancements to disposable income. Among the more prominent of these components are housing allowances, subsistence allowances, the tax advantage, favorable state tax laws, a noncontributory retirement system, and free health care. When the value of these enhancements are taken as a whole, the disposable income of military

members is much higher than it would first appear to be, and substantially higher than civil servants who receive roughly equivalent gross incomes. However, as we mentioned at the beginning of this statement, we do not believe that this advantage of military pay over civil service pay is necessarily evidence that either group is over or underpaid. Rather, we believe that such differences should be a starting point for more in-depth study and analysis on how best to provide the needed work forces at equitable wages but without unnecessary added payments.

Mr. Chairman, this concludes my statement. We will be happy to answer any question.

APPENDIX I

APPENDIX I

ADDITIONAL PAYS INCLUDED IN THIS STUDYAir ForceOfficer PaysEnlisted Pays

Incentive pays

Aviation career incentive
 Flying duty non-crew
 AWACS weapons controllers
 Parachute duty
 Demolition duty
 High and low pressure chamber/
 thermal stress experiment
 hazardous duty pay
 Acceleration subject duty
 Deceleration subject duty
 Dangerous substance handlers

Incentive pays

Flying duty crew member
 Flying duty non-crew member
 Parachute duty
 Demolition duty
 High and low pressure chamber/
 thermal stress experiment
 hazardous duty pay
 Acceleration subject duty

 Deceleration subject duty
 Personnel exposed to hazard-
 ous laboratory situations
 Toxic fuel handlers

Special pays:

Variable physicians
 Retention additional
 physicians
 Board certified physicians
 Medical incentive
 physicians
 Dentist special
 Dentist continuation
 Optometrist
 Veterinarians
 Responsibility
 Diving duty
 Continuation bonus for
 engineering or scientific
 skills designated as critical
 Personal money allowance

Special pays:

Duty at certain places
 Diving duty
 Sea duty
 Overseas extention
 Proficiency
 Reenlistment bonuses
 Enlistment bonuses

APPENDIX I

APPENDIX I

NavyOfficer Pays

Incentive pays:

Aviation career incentive
 Flying duty non-crew members
 Parachute duty
 Demolition duty
 High and low pressure chamber/
 thermal stress experiment
 hazardous duty pay
 Acceleration subject duty
 Deceleration subject duty
 Aviation officer continuation
 bonus
 Toxic fuel handlers
 Flight deck duty

Special pays:

Variable physicians
 Retention additional
 physicians
 Board certified physicians
 Medical incentive
 physicians
 Dentist special
 Dentist continuation
 Optometrist
 Career sea
 Responsibility
 Premium sea
 Nuclear qualified officer
 continuation
 Nuclear career accession
 bonus
 Nuclear career annual incentive
 bonus
 Diving duty
 Continuation bonus for
 engineering or scientific
 skills designated as critical
 Personal money allowance

Enlisted Pays

Incentive pays:

Flying duty crew member
 Flying duty non-crew member
 Parachute duty
 Submarine duty
 Demolition duty
 High and low pressure chamber/
 thermal stress experiment
 hazardous duty pay
 Acceleration subject duty
 Deceleration subject duty
 Flight deck duty pay
 Submarine duty
 Personnel exposed to
 hazardous laboratory
 situations
 Other hazardous duty pay

Special pays:

Career sea
 Premium sea
 Duty at certain places
 Diving duty
 Overseas extension
 Proficiency
 Reenlistment bonuses
 Enlistment bonuses

APPENDIX I

APPENDIX I

ArmyOfficer Pays

Incentive pays:

Aviation career incentive
 Flying duty non-crew members
 Parachute jumping
 Demolition duty
 High and low pressure chamber/
 thermal stress experiment
 hazardous duty
 Acceleration subject duty
 Deceleration subject duty

Special pays:

Variable physicians
 Retention additional
 physicians
 Board certified physicians
 Medical incentive
 physicians
 Dentist special
 Dentist continuation
 Optometrist
 Veterinarians
 Responsibility
 Diving duty
 Continuation bonus for
 engineering or scientific
 skills designated as critical
 Personal money allowance

Enlisted Pays

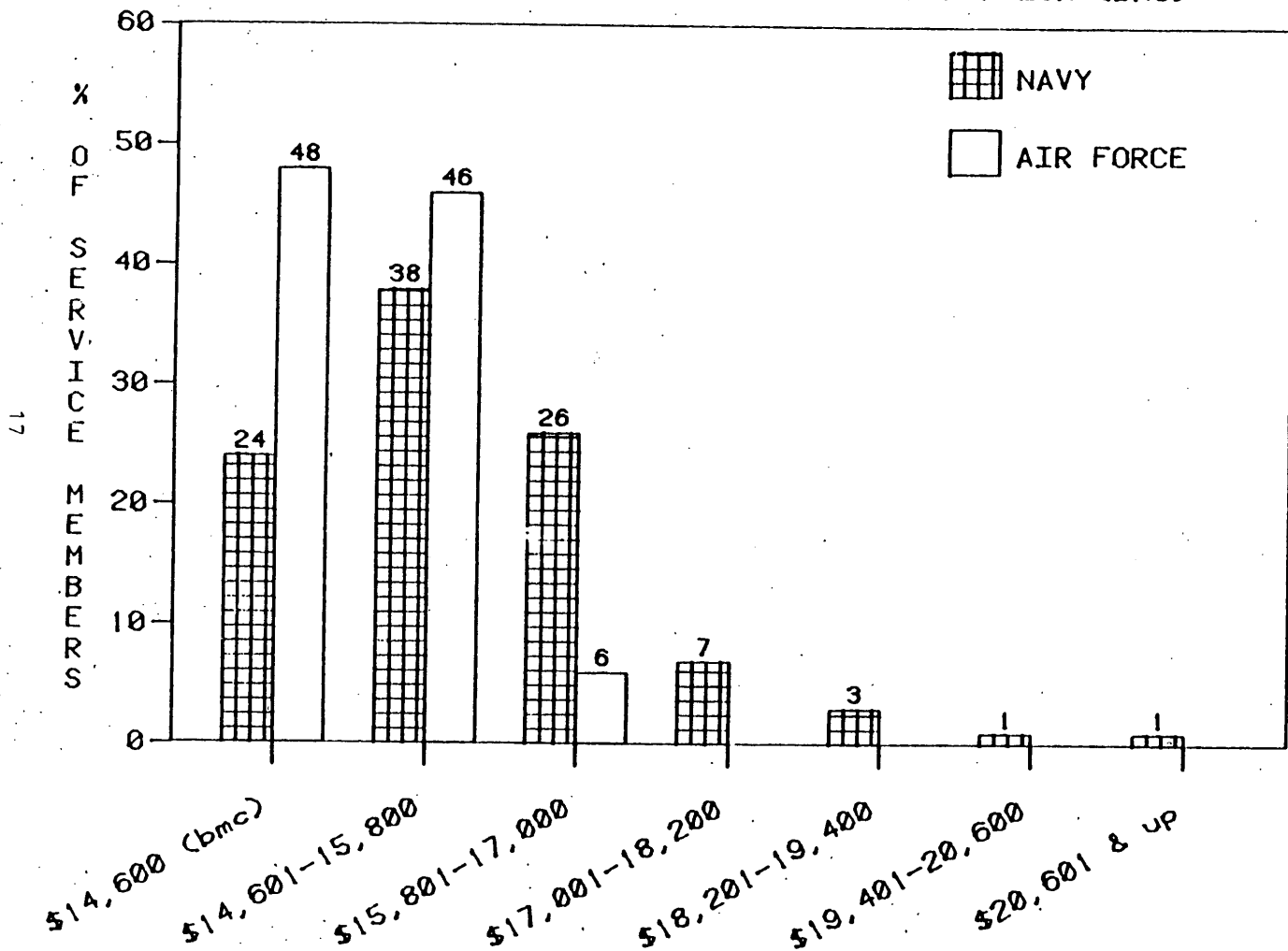
Incentive pays:

Flying duty crew member
 Flying duty non-crew member
 Parachute duty
 Demolition duty
 High and low pressure chamber/
 thermal stress experiment
 hazardous duty pay
 Acceleration subject duty
 Deceleration subject duty
 Toxic fuel handlers
 Personnel exposed to
 hazardous laboratory
 situations

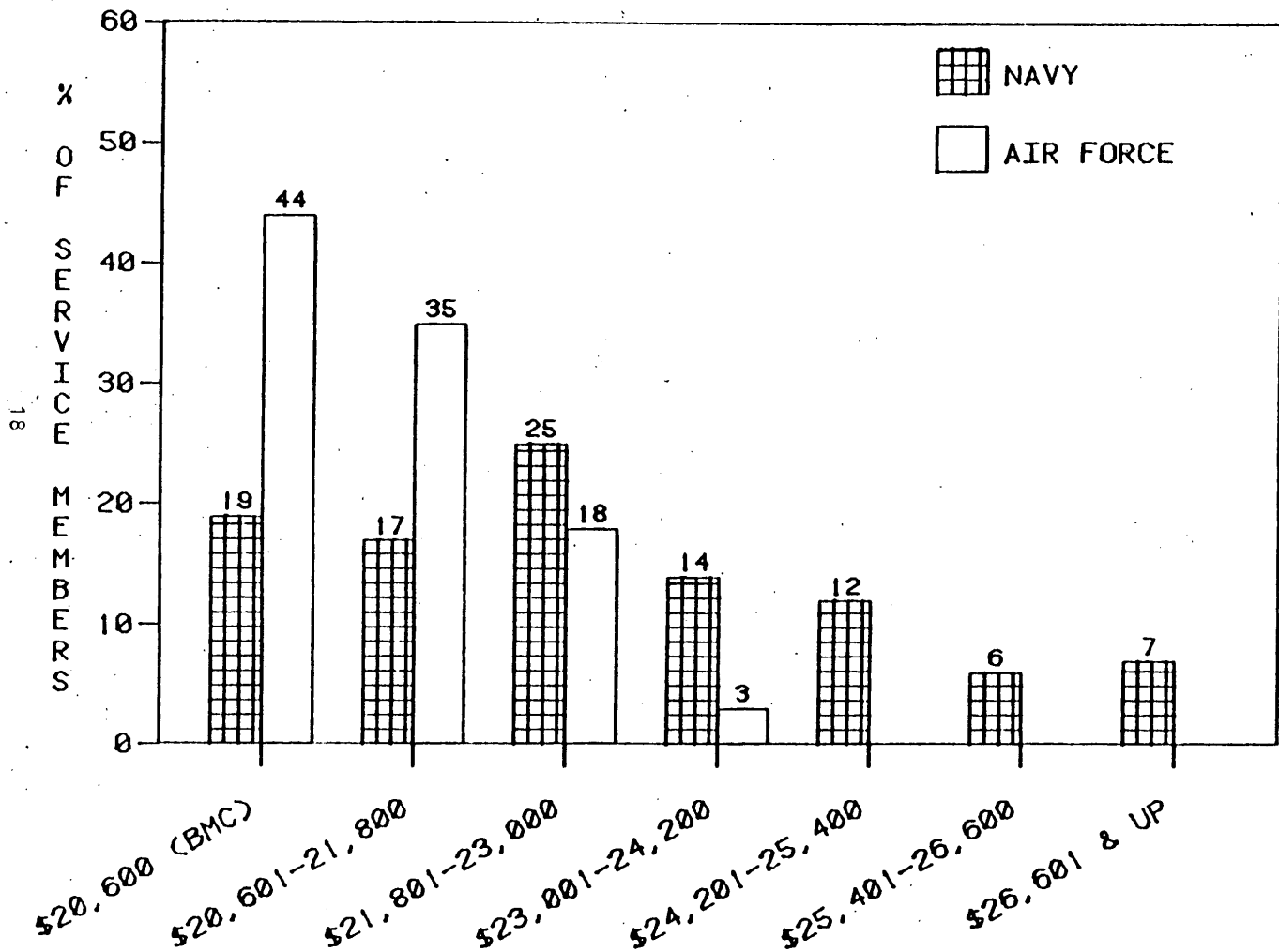
Special pays:

Duty at certain places
 Diving duty
 Overseas extension
 Proficiency
 Reenlistment bonuses
 Enlistment bonuses

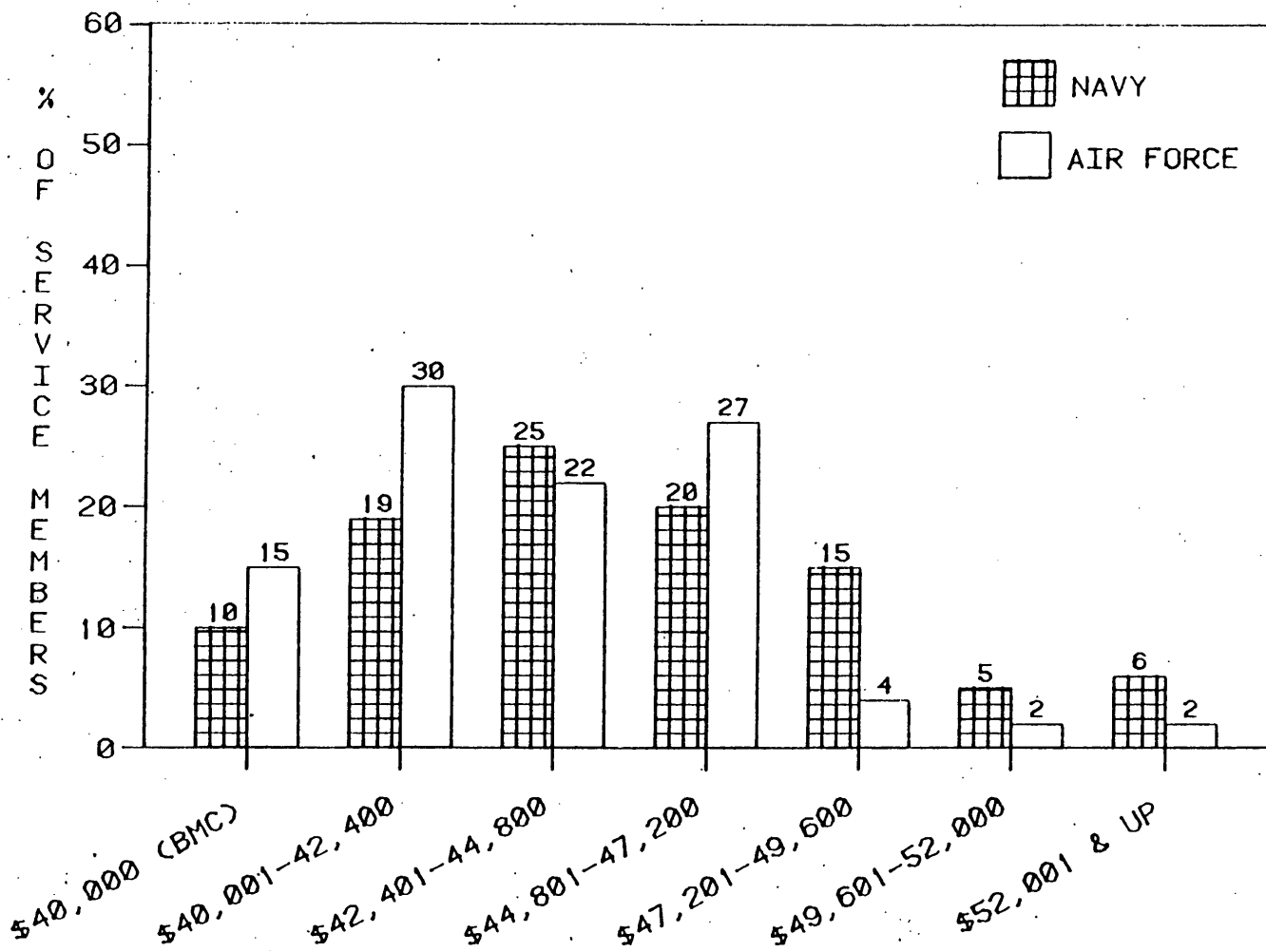
PERCENT RECEIVING SELECTED PAY ITEMS--INCLUDING VHA--
IN ADDITION TO BASIC MILITARY COMPENSATION (BMC)



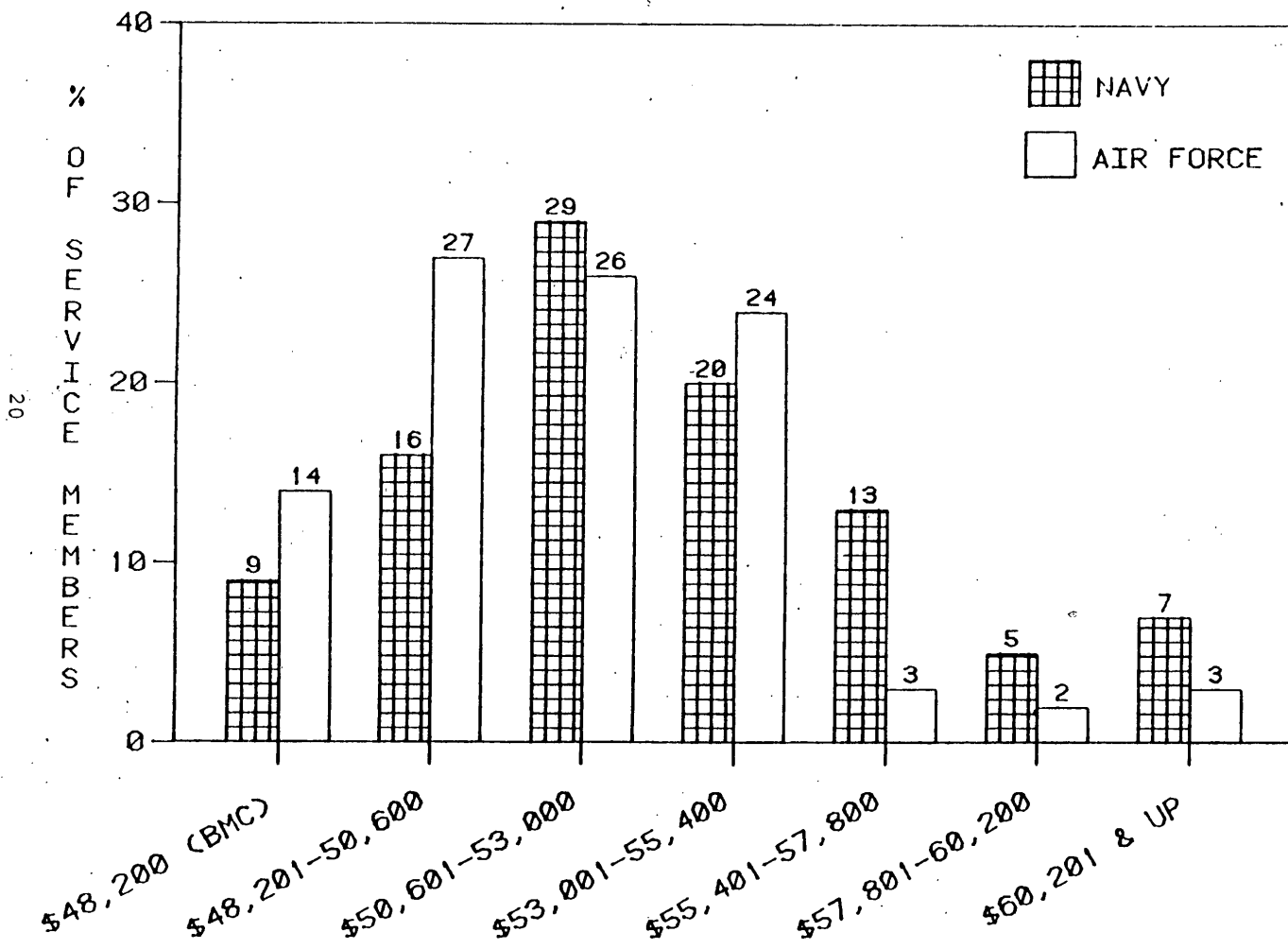
PERCENT RECEIVING SELECTED PAY ITEMS--INCLUDING VHA--
IN ADDITION TO BASIC MILITARY COMPENSATION (BMC)



PERCENT RECEIVING SELECTED PAY ITEMS--INCLUDING VHA--
 IN ADDITION TO BASIC MILITARY COMPENSATION (BMC)



PERCENT RECEIVING SELECTED PAY ITEMS--INCLUDING VHA--
IN ADDITION TO BASIC MILITARY COMPENSATION (BMC)



MILITARY-CIVIL SERVICE WORK SPAN COMPARISONS

Military Officer	Civil Service General Schedule
O-8	GS-18
O-7	GS-17
O-6	GS-16
O-5	GS-15
O-4	GS-14
O-3	GS-13
O-2	GS-12
O-1	GS-11
	GS-9
	GS-7

Source: "Modernizing Military Pay," Department of Defense Report of the First Quadrennial Review of Military Compensation, Vol. I, Nov. 1, 1967, Chapter 4

DISPOSABLE INCOME COMPARISONS (note a)

<u>Military Personnel</u>									
<u>Grade/MOS</u>	<u>Family size b/</u>	<u>Regular Gross Income (RMC) c/</u>	<u>Gross Cash Income i/</u>	<u>Tax Advan- tace d/</u>	<u>Federal Income Tax e/</u>	<u>State Income Tax f/</u>	<u>FICA g/</u>	<u>Disposable Income</u>	<u>Disposable Income as a Percent of RMC</u>
O-10/26	3	\$85,423	\$74,827	\$10,596	\$18,097	\$3,230	\$2,392	\$51,108	59.8
O-8/26	4	84,392	73,906	10,486	17,211	3,142	2,392	51,161	60.6
O-7/26	4	75,379	65,698	9,681	13,600	2,671	2,392	47,035	62.4
O-6/26	4	66,556	58,367	8,189	10,769	2,289	2,392	42,917	64.5
O-6/22	4	62,249	54,623	7,626	9,308	2,074	2,392	40,849	65.6
O-5/20	4	54,181	47,680	6,501	6,883	1,704	2,392	36,701	67.7
O-4/16	4	46,223	41,153	5,070	4,992	1,361	2,137	32,663	70.7
O-3/6	2	35,916	32,438	3,478	3,422	984	1,617	26,415	73.5
O-2/2	2	26,041	23,889	2,152	1,745	550	1,111	20,483	78.7
O-1/1	1	20,514	18,603	1,911	1,690	400	884	15,629	76.2
E-9/26	4	39,370	35,513	3,857	3,533	1,055	1,781	29,144	74.0
E-8/20	4	31,747	28,849	2,898	2,051	687	1,352	24,799	78.0
E-7/18	4	28,134	25,766	2,368	1,552	538	1,178	22,498	80.0
E-6/10	4	23,145	21,325	1,820	885	336	919	19,185	82.9
E-5/6	2	20,080	18,472	1,608	863	302	776	16,531	82.3
E-4/3	1	15,533	14,261	1,272	951	244	638	12,428	80.0
E-3/2	1	14,341	13,163	1,178	771	198	567	11,627	81.1
E-1/1	1	11,718	10,858	860	509	119	461	9,769	83.4

<u>Civilian Personnel</u>									
<u>GS Employee Grade/Step</u>	<u>Family Size b/</u>	<u>Salary</u>	<u>Federal Income Tax e/</u>	<u>State Income Tax f/</u>	<u>Retirement Contribution</u>	<u>Health Insurance Contribution h/</u>	<u>Medicare Tax i/</u>	<u>Disposable Income</u>	<u>Disposable Income as a percentage of Salary</u>
GS-15/4	4	\$53,407	\$13,044	\$2,598	\$3,738	\$1,417	\$464	\$32,146	60.2
GS-15/1	4	48,553	10,971	2,319	3,399	1,417	464	29,983	61.8
GS-14/4	4	45,405	9,743	2,138	3,178	1,417	464	28,465	62.7
GS-13/3	4	37,258	6,682	1,669	2,608	1,417	464	24,418	65.6
GS-12/4	4	32,311	5,113	1,385	2,262	1,417	420	21,714	67.2
GS-11/4	4	26,959	3,627	1,077	1,887	1,417	350	18,601	69.0
GS-9/4	3	22,281	2,735	843	1,560	1,417	290	15,436	69.3
GS-7/4	2	18,215	2,060	643	1,275	1,417	237	12,583	69.1
GS-7/1	1	16,559	2,481	583	1,159	659	215	11,462	69.2
GS-5/4	2	14,707	1,387	445	1,029	1,417	191	10,238	69.6
GS-3/2	1	11,000	1,233	308	770	659	143	7,887	71.7
GS-1/1	1	8,676	808	209	607	659	113	6,280	72.4
<u>Federal Deputive Level</u>									
Level I	4	80,100	25,594	4,133	5,607	1,417	464	42,885	53.5
Level II	4	69,800	20,547	3,541	4,886	1,417	464	38,945	55.8
Level V	4	63,800	17,617	3,196	4,466	1,417	464	36,640	57.4
<u>Senior Deputive Service</u>									
SES-1	4	56,945	14,601	2,801	3,986	1,417	464	33,676	59.1
SES-3	4	61,515	16,612	3,064	4,306	1,417	464	35,652	58.0
SES-5	4	65,500	18,440	3,293	4,585	1,417	464	37,301	56.9
SES-6	4	67,200	19,273	3,391	4,704	1,417	464	37,951	56.5

APPENDIX IV

APPENDIX IV

FOOTNOTES

- a/Pay rates used were those in effect from Oct. 1, 1982 through Dec. 1983. Federal income tax rates used were those in effect from July 1, 1982 through June 30, 1983.
- b/Family size display is the size estimated to be most common for each category.
- c/Gross military pay is defined as the combination of basic pay, basic allowances for quarters and subsistence, variable housing allowance, and the imputed tax advantage.
- d/Tax advantage defined as the amount of additional income the member would have to receive in order for disposable income to remain constant if tax-free allowances were taxable.
- e/Federal income tax computed using: tax rates in effect through June 1983, standard deduction, number of exemptions according to assumed family size, and joint return for all members with family size greater than 1. Persons with a gross income of less than \$10,000 are assumed to receive the earned income credit.
- f/State income tax based on 1982 Virginia tax rates, same conditions as above.
- g/Effective Jan. 1, 1983, FICA rate is 6.7 percent of first \$35,700.
- h/Based on rates of the medical insurance program designated by OPM as most often selected by federal employees assuming high-option family coverage for married employees and high-option self-only coverage for single employees.
- i/Medicare tax rate is 1.3 percent of the first \$35,700.
- j/Assumes basic pay, basic allowance for subsistence, basic allowance for quarters and variable housing allowance--using metropolitan Washington, D.C., rates--are received in cash.

APPENDIX V

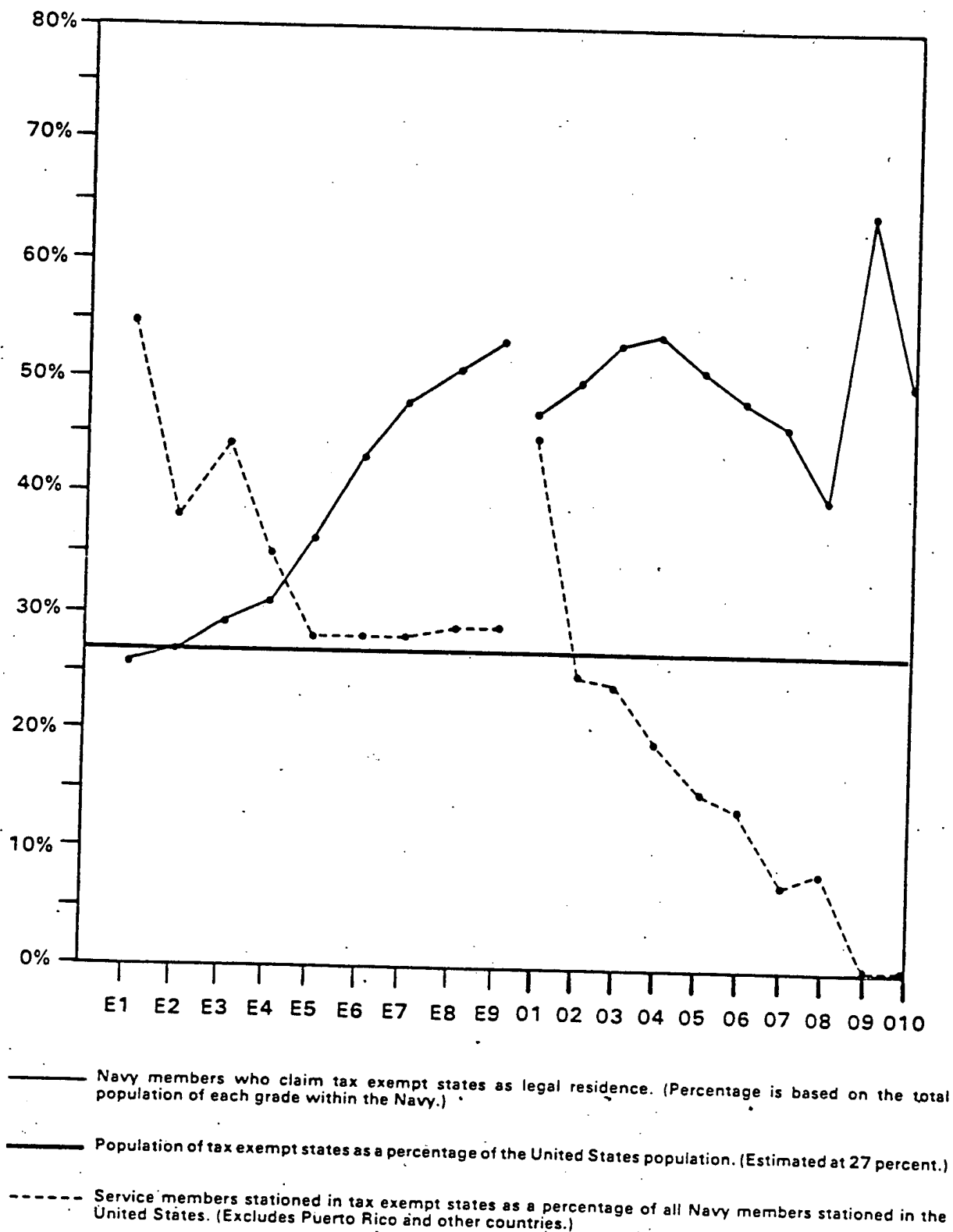
APPENDIX V

EXEMPTION FROM STATE INCOME TAXES
ENHANCES TAKE-HOME PAY

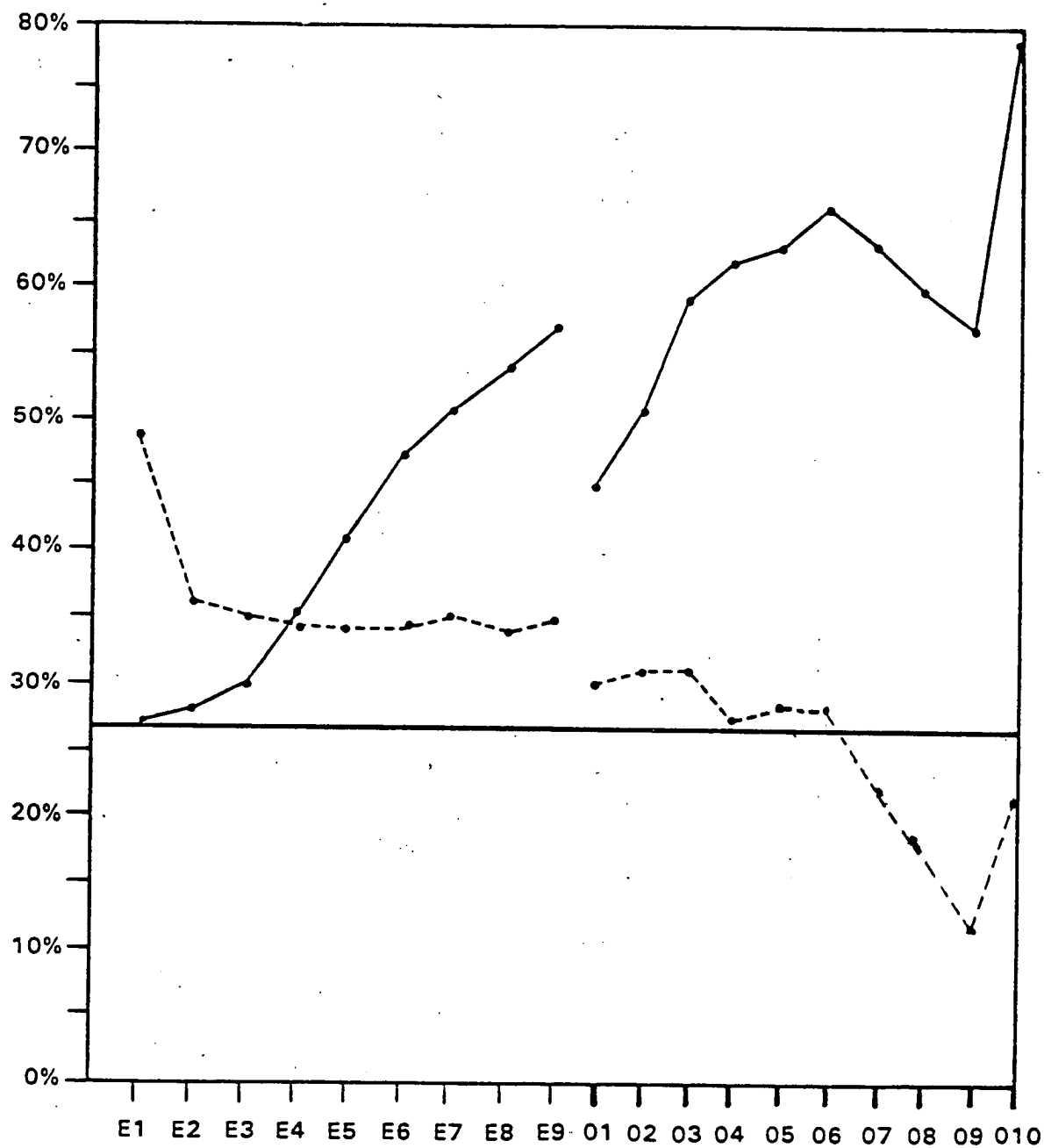
The payment or nonpayment of state income tax can affect military disposable income. While service members, like the ordinary citizen, are not exempt from paying state income taxes where appropriate, many members have established legal residence in states that do not tax personal income or exempt military pay from taxation. In these circumstances, the Soldiers' and Sailors' Civil Relief Act of 1940 precludes states where service members are physically stationed from taxing a members pay because he or she is a legal resident of another state, and it provides that service members do not lose their legal residence in one state when moved by military orders to another state. This means that once a military member has established legal residence in a state that does not tax personal income or military pay, the member can maintain legal residence in that state for the remainder of his or her military career.

There are currently 14 states which either do not have a personal income tax or exempt all active duty pay from personal income taxes. Eight other states exempt all military pay earned out of state, and 10 more exempt specific dollar amounts of military pay. As the following graphic displays show, a significant proportion of military personnel (particularly higher graded personnel) have established as their legal residence, one of the 14 states which does not tax military pay.

PROPORTION OF NAVY MEMBERS DOMICILED IN A STATE WHICH DOES NOT TAX MILITARY PAY

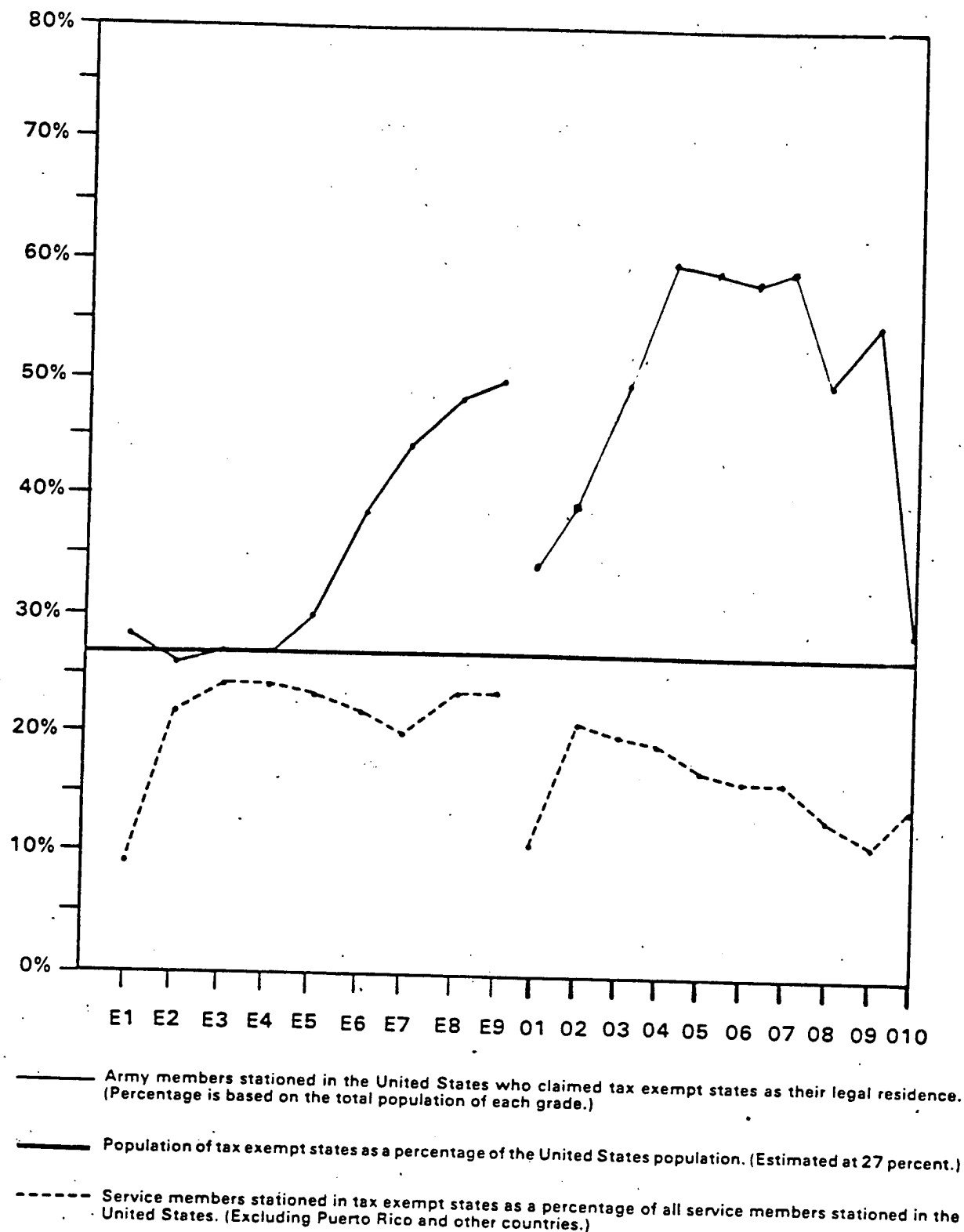


PROPORTION OF AIR FORCE MEMBERS DOMICILED IN A STATE WHICH DOES NOT TAX MILITARY PAY



- Air Force members stationed in the United States who claimed tax exempt states as their legal residence. (Percentage is based on the total population of each grade.)
- Population of tax exempt states as a percentage of the United States population. (Estimated at 27 percent.)
- - - - - Service members stationed in tax exempt states as a percentage of all service members stationed in the United States. (Excluding Puerto Rico and other countries.)

PROPORTION OF ARMY MEMBERS DOMICILED IN A STATE WHICH DOES NOT TAX MILITARY PAY



APPENDIX VI

APPENDIX VI

COMPARISON OF CUMULATIVE PAY INCREASES
FOR SELECTED MILITARY AND CIVIL SERVICE GRADES

The following is a simple comparison of cumulative pay increases for selected military and civil service grades. It shows that basic military compensation¹ has increased at a substantially faster rate than civil service pay. This comparison does not include:

- Variable housing allowance.
- Overseas station allowance.
- A wide variety of special pays and bonuses, such as (1) special physicians pay, (2) physicians board certified pay, (3) additional retention pay for physicians, (4) dentist, optometrist and veterinarian special pay, (5) sea duty pay, (6) overseas extension pay, (7) proficiency pay, (8) enlistment bonuses, (9) reenlistment bonuses, (10) responsibility pay, (11) diving duty pay, (12) nuclear officer pay, (13) career sea pay, and (14) premium sea pay.
- A wide variety of incentive pays, such as (1) flying duty pay, (2) parachute jump pay, (3) demolition duty pay, (4) submarine duty pay, and (5) flight deck duty pay.

The selected grades depicted below are for illustrative purposes only, and do not indicate work difficulty or grade level relationships between military and civil service grades.

¹Basic military compensation (BMC) is the sum of basic pay, basic allowance for quarters (BAQ), basic allowance for subsistence (BAS) and the tax advantage which accrues because allowances are not subject to federal income taxes. Regular military compensation (RMC) is defined as including the above four pay elements as well as variable housing allowance, overseas station allowance, and the tax advantage accruing to these two nontaxable allowances.

APPENDIX VI

APPENDIX VI

E-3 (Under 2 Years
Service, Family Size 1)GS-3, Step 1

	<u>BMC 1/</u>	<u>Percentage Increases In BMC 2/</u>	<u>Salary</u>	<u>Percentage Increases In Salary 1/</u>
Oct. 1972	\$ 5,731	--	5,828	--
Oct. 1974	7,020	22.5	6,764	16.1
Oct. 1977	8,220	17.1	7,930	17.2
Oct. 1980	10,593	28.9	9,766	23.2
Oct. 1981	11,881	12.2	10,235	4.8
Oct. 1982	12,289	3.4	10,645	4.1
Jan. 1984	12,688	3.2	11,017	3.5
Cumulative increase		121.4		89.0

E-7 (18 Years of
Service Family Size 4)GS-7, Step 10

Oct. 1972	\$11,245	--	\$11,771	--
Oct. 1974	13,412	19.3	13,679	16.2
Oct. 1977	16,007	19.3	16,035	17.2
Oct. 1980	20,435	27.7	19,747	23.1
Oct. 1981	23,913	17.0	20,701	4.8
Oct. 1982	24,761	3.6	21,527	4.0
Jan. 1984	25,572	3.3	22,277	3.5
Cumulative increase		127.4		89.3

O-1 (Under 2 years of
Service, Family Size 1)GS-7, Step 1

Oct. 1972	\$ 8,772	--	\$ 9,053	--
Oct. 1974	10,135	15.5	10,520	16.2
Oct. 1977	12,009	18.5	12,336	17.3
Oct. 1980	15,372	28.0	15,193	23.2
Oct. 1981	17,731	15.4	15,922	4.8
Oct. 1982	18,311	3.3	16,559	4.0
Jan. 1984	18,904	3.2	17,138	3.5
Cumulative increase		115.5		89.3

O-4 (12 Years of
Service, Family Size 4)GS-13, Step 2

Oct. 1972	\$18,213	--	\$19,362	--
Oct. 1974	21,324	17.1	22,543	16.4
Oct. 1977	25,400	19.1	26,889	19.3
Oct. 1980	32,515	28.0	33,116	23.2
Oct. 1981	37,616	15.7	34,706	4.8
Oct. 1982	38,794	3.1	36,094	4.0
Jan. 1984	40,057	3.3	37,357	3.5
Cumulative increase		119.9		92.9

APPENDIX VI

APPENDIX VI

0-6 (26 Years of
Service, Family Size 4)GS-15, Step 10

Oct. 1972	\$28,496	--	\$33,260	--
Oct. 1974	33,743	18.4	36,000	8.2
Oct. 1977	40,525	20.1	47,025	30.6
Oct. 1980	52,274	29.0	50,112	6.6
Oct. 1981	60,418	15.6	50,112	0.0
Oct. 1982	61,912	2.5	63,115	26.0
Jan. 1984	63,579	2.7	65,327	3.5
Cumulative increase		123.1		96.4

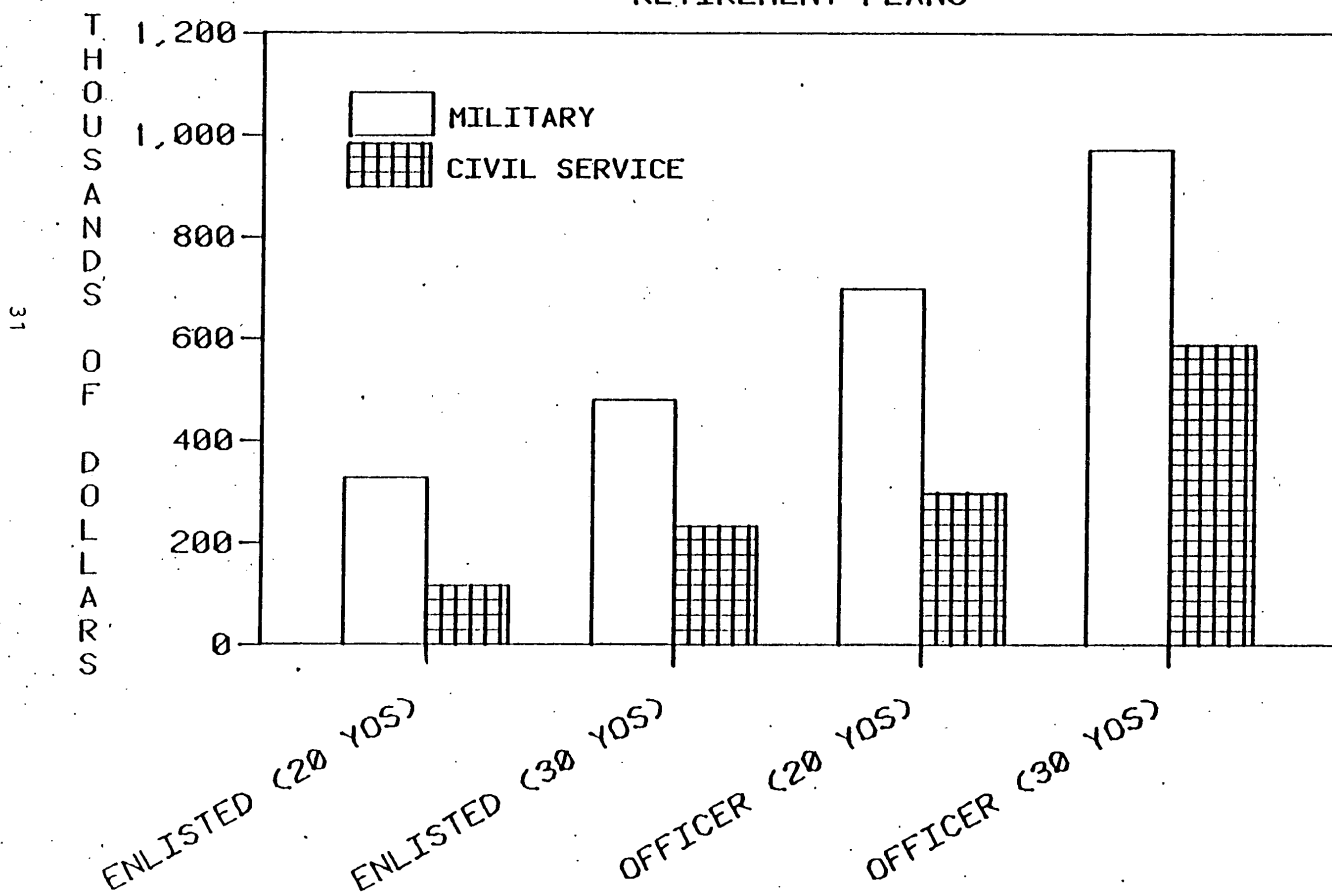
0-7 (20 Years of
Service, Family Size 4)GS-16, Step 3

Oct. 1972	\$32,542	--	\$31,656	--
Oct. 1974	38,542	18.4	36,000	13.7
Oct. 1977	46,639	21.0	45,251	25.7
Oct. 1980	60,078	28.8	50,112	10.7
Oct. 1981	66,578	10.8	50,112	0.0
Oct. 1982	71,037	6.7	60,741	21.2
Jan. 1984	72,714	2.4	62,868	3.5
Cumulative increase		123.4		98.6

1/Basic Military Compensation (BMC) is the sum of basic pay, quarters and subsistence allowances, and the tax advantage which accrues because allowances are not subject to Federal income taxes. Not included are the numerous tax benefits provided by the various States.

2/The percentage increase compares each year with the preceding year listed. The cumulative increase compares October 1972 pay rates with January 1984 pay rates.

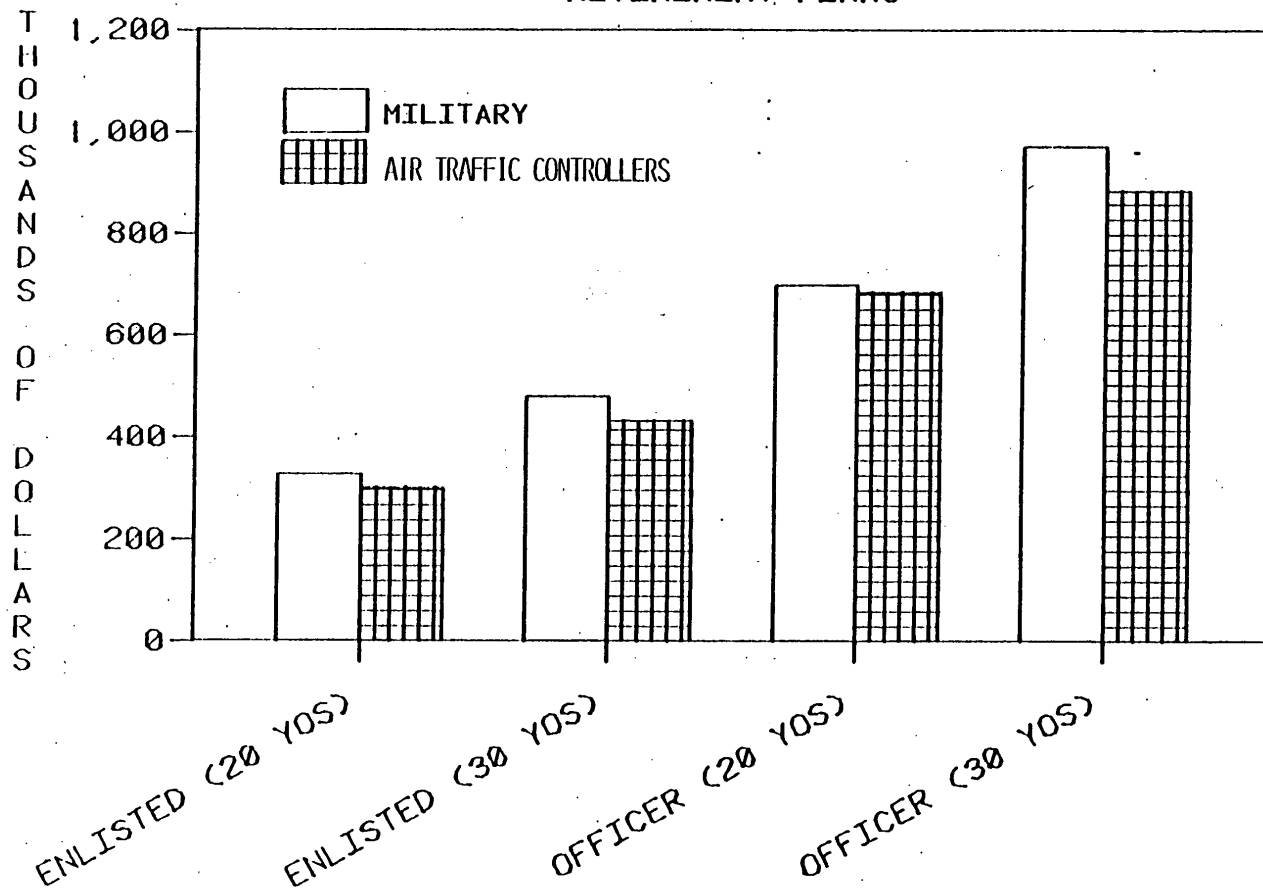
COMPARISON OF LIFETIME RETIREMENT EARNINGS
BETWEEN MILITARY AND GENERAL CIVIL SERVICE
RETIREMENT PLANS



APPENDIX VII

APPENDIX VII

COMPARISON OF LIFETIME RETIREMENT EARNINGS
BETWEEN MILITARY AND AIR TRAFFIC CONTROLLERS
RETIREMENT PLANS



COMPARISON OF LIFETIME RETIREMENT EARNINGS
BETWEEN MILITARY AND FEDERAL PROTECTIVE SERVICE EMPLOYEES
RETIREMENT PLANS

